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MCI WorldCom, Inc., (MCI WorldCom) hereby submits its Petition for Reconsideration of a portion of the above-captioned Order.¹ In this Order, the Commission fails to address MCI WorldCom's argument that the consolidation of all revenue reporting requirements according to end-user revenues is less competitively neutral than consolidating on a net revenue basis. MCI WorldCom argued that the Commission's consolidation of reporting according to end-user revenues failed to consider the ability of carriers operating in industries with differing degrees of competition to recover subsidies payments allocated to them.²

MCI WorldCom argued that since local exchange companies (LECs) operate in less competitive markets than interexchange carriers (IXCs), their risk of recovering allocated subsidy payments is less than that of interexchange carriers (IXCs) who operate in competitive markets. The shift of TRS, Regulatory Fees, and NANP from net revenues to end user revenues not only increased subsidy payments allocated to IXCs (a point the Commission does not dispute) but also, and most important, increased IXC risk of non-recovery of those payments relative to LECs. In fact the end-user method shifts 100 percent of LECs recovery risk to IXCs.

¹1998 Biennial Regulatory Review, Streamlined Contributor Reporting, Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, *Contributor Requirements Order*, CC Docket No. 98-171, Released July 14, 1999.

²MCI WorldCom, Inc. Comments and Reply Comments: 1998 Biennial Regulatory Review, Streamlined Contributor Reporting, Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, filed October 20, 1998, and November 16, 1998, respectively.

The Commission's first attempted response³ argues that the end-user revenue basis satisfies the two-prong test for competitive neutrality, articulated in its LNP Cost Recover Order.⁴ However, the two prong test only considers the competitive impact of revenue reporting when both firms occupy the same market position, e.g., both are LECs. The two prong test limits consideration of competitive neutrality to whether the *distribution* of subsidy *obligations* is competitively neutral. However, the two-prong test does not consider the more important competitive neutrality associated with the *recovery* of required subsidy *payments* (even if the distribution of the burden is competitively neutral). The Commission's reference to the two-prong test is inapposite.

The second response is incorrect and is a misrepresentation of the truth. The Commission next argues that exogenous cost treatment of ILEC contributions through the price cap mechanism means that “the *overwhelming* majority of these costs are passed through to toll carriers under either methodology” (emphasis added).⁵ It would be correct that if exogenous cost treatment actually did permit all LECs to automatically pass through 100 percent of their subsidy payments, IXCs would bear all the risk of recovering LEC subsidy payments under either the net revenue or end-user methods.

However, as the Commission concedes, exogenous cost treatment does not cover the

³Order at ¶64.

⁴Telephone Number Portability, *LNP Cost Recovery Order*, CC Docket No. 95-116, Released May 12, 1998, at ¶¶106-107.

⁵Order at ¶65

interstate revenue of all LECs. The Commission represents this fact as having no practical importance.⁶ That is a significant misrepresentation of the truth. The amount of LEC revenues not covered by exogenous cost treatment under price caps is not insignificant as the Commission says. Only about 70 percent of LEC's interstate revenues are subject to this pass through.⁷ Using net revenues rather than end-user revenues would mean that close to one-third of LEC costs would be subject to recovery risks comparable to risks borne by IXCs.

Moreover, the Commission has recently given notice that it will permit price cap LECs to remove an increasingly substantial portion of their interstate revenues from price cap regulation, in contemplation of increasing competition for interstate access services.⁸ Thus, the Commission's actions support MCI WorldCom's argument that if the net revenue method were used, LECs would bear a more equitable portion of recovery risk. By shifting all recovery risk away from LEC interstate access revenues, even as the Commission affirms competition in interstate access will increase, the Commission has failed to adopt a competitively neutral funding mechanism, in

⁶Id., ¶65.

⁷Total LEC interstate revenues was approximately \$28 billion in 1997, while RBOC interstate revenues were approximately \$19 billion. *See, Telecommunications Industry Revenue: 1997*, Industry Analysis Division, Common Carrier Bureau, October, 1998.

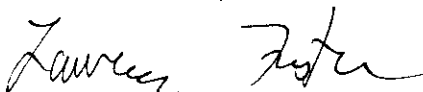
⁸Commission Adopts Pricing Flexibility and Other Access Charge Reforms, Report No. 99-33, Released August 5, 1999.

contradiction to the principles it adhered to when adopting its rules implementing Sections 251(b)(2) and 254(b)(4).

MCI WorldCom urges the Commission to reconsider its consolidation of reporting requirements on an end-user revenue basis. The Commission has failed to respond to MCI WorldCom's arguments that the end-user revenue basis was not competitively neutral, and actions taken by the Commission since the release of the Order reveal the anti-competitive bias of the mechanism the Commission has chosen.

For the above-mentioned reasons, MCI WorldCom encourages the Commission to reconsider its decision to consolidate reporting requirements on the basis of end-user revenues, and instead consolidated on the basis of net revenues, in order to fully implement its principle of competitive neutrality.

Respectfully submitted,
MCI WorldCom, Inc.

A handwritten signature in black ink, appearing to read "Lawrence Fenster", is written over the typed name.

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August 30, 1999

Statement of Verification

I have read the foregoing and, to the best of my knowledge, information and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 30, 1999

A handwritten signature in black ink, appearing to read "Lawrence Fenster", written over a horizontal line.

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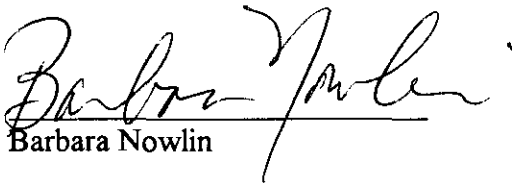
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